Ketua Pengarah Hasil Dalam Negeri v Latex Manufacturing Sdn Bhd

HIGH COURT (KUALA LUMPUR) — CIVIL APPEAL NO 14–1–01 OF 2015
ASMABI MOHAMAD J
18 AUGUST 2015

Revenue Law — Income tax — Additional assessment — Pioneer certificate issued to respondent — Appellant contended respondent failed to comply with condition of pioneer certificate — Appellant computed tax for respondent without pioneer status incentive — Whether appellant entitled to disregard authority of pioneer certificate — Whether there was non-compliance of s 9 of the Promotion of Investments Act 1986 — Whether there was breach of natural justice — Whether appellant rightful authority to decide on non-compliance of pioneer certificate — Whether appellant could invoke s 91 of the Income Tax Act 1967 to justify its imposition of additional assessment on respondent — Whether appellant could impose penalty — Income Tax Act 1967 s 91 & para 34 of Schedule 5 — Promotion of Investments Act 1986 ss 7(3), 9 & 24

The respondent was issued with a pioneer certificate dated 4 May 1993 ('the pioneer certificate') by the Minister of International Trade and Industry ('MITI') under s 7(3) of the Promotion of Investments Act 1986 ('the PIA') certifying that the respondent was a pioneer company and that the 'Examination Gloves' were promoted product. The effect of the issuance of the pioneer certificate was that the respondent was exempted from payment of tax. Pursuant to an audit conducted by the appellant, it was found that the respondent had failed to comply with condition (j) of the pioneer certificate which required the respondent to directly export its product. Consequently, the appellant had computed the tax for the respondent for year of assessment 2000 without any pioneer status incentive and imposed penalties under s 113(2) of the ITA at the rate of 45%. The respondent then filed an appeal to the Special Commissioners of Income Tax ('SCIT') against the appellant's action in which the SCIT found in favour of the respondent and held that the respondent had not contravened condition (j) of the pioneer certificate at all material times. Aggrieved with SCIT's decision, the appellant filed the present appeal via a 'case stated' pursuant to para 34 of Schedule 5 of the Income Tax Act 1967 ('the ITA'). The issues for court's decisions were: (a) whether the appellant was vested with the authority to disregard pioneer certificate of the respondent for any year of assessment in which a condition in the pioneer certificate was allegedly not complied with; (b) whether there was non-compliance of the mandatory requirement under s 9 of the PIA; (c) whether there was a breach of natural justice; (d) whether the appellant was the

rightful authority to decide on the non-compliance of the pioneer certificate; (e) whether the appellant could invoke s 91 of the ITA to justify its imposition of additional assessment on the respondent; and (f) whether the appellant could impose the penalty.

Held, dismissing the appellant's appeal with costs of RM7,000:

(1) There was no cancellation of the respondent's pioneer certificate by MITI pursuant to s 24 of the PIA, hence the respondent could continue to enjoy its pioneer status. The appellant was therefore wrong in issuing additional assessment. Further, the appellant had no grounds to impose the penalty as the appellant lacked the legal grounds and authority to raise the additional assessment (see paras 18 & 53).

(2) Section 9(1) of the PIA is couched in a mandatory nature, unless there was a notice to show cause issued for the respondent to show cause as to why its pioneer certificate ought not to be cancelled and its tax incentives ought not to be revoked, the respondent, therefore was entitled to continue to enjoy the tax incentives under the pioneer certificate. Further, MITI did not take any action towards the cancellation of the pioneer certificate pursuant to s 9 of the PIA as suggested by the appellant. As there was clear violation of the mandatory requirement of s 9 of the PIA, the additional assessment raised by the appellant was null and void (see paras 25 & 27–28).

(3) On the facts, the respondent was deprived of its rights to the tax incentives under its pioneer certificate without first being given the right to be heard which had resulted in the respondent suffering from grave economic loss. Such act could not stand as the very basic principle of natural justice had been infringed by the appellant and MITI (see para 37).

(4) The appellant had interfered with powers vested in MITI by PIA by making recommendations that the respondent's pioneer certificate be cancelled and incentives revoked without even giving the right to the respondent to be heard. It was obvious that, the appellant had exceeded the authority granted to it by ITA and had encroached into the jurisdiction of MITI. The appellant had acted ultra vires in disallowing the respondent's claim for the tax incentives under the pioneer certificate (see paras 43–45).

(5) The effect of having pioneer status is similar to that of a waiver year ie that all income generated by the company from its pioneer business during the period covered by the pioneer status is exempted from tax. The waiver year declared by the government, which was the year 1999, was part of the respondent's pioneer status period ie from 1 October 1992–30 September 2002. Therefore, regardless of whether there was a waiver year

or not, the respondent's income was still exempted from tax during that period. Based on the above, the appellant's contention that the respondent was negligent could not be supported and thus, the appellant could not rely on the provision of s 91(1) of the ITA to justify its claim for additional assessment (see paras 50 & 52).

[Bahasa Malaysia summary

Responden diberi sijil perintis bertarikh 4 Mei 1993 ('sijil perintis') oleh Menteri Perdagangan Antarabangsa dan Industri ('MITI') di bawah s 7(3) Akta Promosi Pelaburan 1986 ('PIA') yang mengesahkan responden adalah syarikat perintis dan bahawa produk yang diketengahkan adalah pemeriksaan sarung tangan. Berikutan pengeluaran sijil perintis ini, responden terkecuali daripada membayar cukai. Audit oleh perayu mendapati bahawa responden gagal mematuhi syarat (j) sijil perintis yang mengkehendaki agar responden mengeksport produknya secara langsung. Akibatnya, perayu merekodkan cukai responden bagi tahun taksiran 2000 tanpa insentif status perintis dan mengenakan denda di bawah s 113(2) Akta Cukai Pendapatan 1967 ('ITA') pada kadar 45%. Responden seterusnya memfailkan rayuan ke Suruhanjaya Khas Cukai Pendapatan ('SCIT') terhadap tindakan perayu dan SCIT memutuskan berpihak pada responden dan berpendapat bahawa responden tidak melanggar syarat (j) sijil perintis pada masa-masa material. Terkilan dengan keputusan SCIT, perayu memfailkan rayuan ini melalui 'kes yang dinyatakan' di bawah perenggan 34 Jadual 5 ITA. Isu-isu yang perlu diputuskan oleh mahkamah adalah: (a) sama ada perayu mempunyai kuasa mengetepikan sijil perintis responden bagi tahun taksiran yang mana sijil perintis dikatakan tidak dipatuhi; (b) sama ada terdapat ketidakpatuhan syarat wajib s 9 PIA; (c) sama ada terdapat pelanggaran keadilan asasi; (d) sama ada perayu adalah pihak yang sah berkuasa untuk memutuskan tentang ketidakpatuhan sijil perintis; (e) sama ada perayu boleh membangkitkan s 91 ITA untuk mewajarkan pengenaan taksiran tambahan respondan; dan (f) sama ada perayu boleh mengenakan denda.

Diputuskan, menolak rayuan perayu dengan kos RM7,000:

(1) Tiada pembatalan sijil perintis responden oleh MITI berikutan s 24 PIA. Oleh itu, responden boleh terus menikmati status perintisnya. Dengan itu, perayu khilaf dalam mengeluarkan taksiran tambahan. Selanjutnya, perayu tidak mempunyai asas untuk mengenakan denda kerana perayu tidak mempunyai asas undang-undang dan kuasa untuk mengenakan taksiran tambahan (lihat perenggan 18 & 53).

(2) Seksyen 9(1) PIA bersifat mandatori. Melainkan terdapat notis tunjuk sebab yang dikeluarkan untuk responden menunjukkan sebab mengapa sijil perintisnya tidak patut dibatalkan dan insentif cukainya tidak patut dibatalkan, responden berhak terus menikmati insentif cukai di bawah sijil perintis. Selanjutnya, MITI tidak mengambil apa-apa tindakan

terhadap pembatalan sijil perintis di bawah s 9 PIA seperti yang dicadangkan oleh perayu. Kerana terdapat pelanggaran jelas syarat mandatori s 9 PIA, taksiran tambahan yang dibangkitkan oleh perayu tidak sah dan terbatal (lihat perenggan 25 & 27–28).

(3) Berdasarkan fakta, responden dinafikan hak mendapat insentif cukai di bawah sijil perintisnya tanpa, pertama sekali, diberi peluang didengar yang mengakibatkan responden mengalami kerugian ekonomi yang besar. Tindakan sedemikian tidak boleh kekal kerana prinsip asas keadilan asasi telah dilanggar oleh perayu dan MITI (lihat perenggan 37).

(4) Perayu masuk campur kuasa MITI di bawah PIA dengan mencadangkan agar sijil perintis perayu dibatalkan dan insentifnya ditarik balik tanpa memberi responden hak untuk didengar. Jelas bahawa perayu melangkau kuasa yang diberi kepadanya oleh ITA dan melanggar masuk bidang kuasa MITI. Perayu bertindak ultra vires dalam tidak membenarkan tuntutan responden bagi insentif cukai di bawah sijil perintis (lihat perenggan 43–45).

(5) Kesan mempunyai status perintis adalah sama dengan pengecualian satu tahun iaitu semua pendapatan yang dijana daripada syarikat dengan perniagaan perintis semasa tempoh tersebut dilindungi oleh status perintis dikecualikan daripada cukai. Tahun pengecualian yang dimaklumkan oleh kerajaan, iaitu tahun 1999, adalah sebahagian daripada status perintis responden iaitu daripada 1 Oktober 1992–30 September 2002. Oleh itu, tidak mengira sama ada terdapat tahun pengecualian atau tidak, pendapatan responden masih dikecualikan daripada cukai pada masa itu. Berdasarkan itu, hujah perayu bahawa responden cuai tidak disokong dan dengan itu, perayu tidak boleh bersandar pada peruntukan s 91(1) ITA untuk mewajarkan taksiran tambahan (lihat perenggan 50 & 52).]

Notes

For cases on additional assessment, see 10(2) *Mallal's Digest* (5th Ed, 2015) paras 2495–2516.

Cases referred to

Attorney-General v Thomas D'arcy Ryan [1980] AC 718, PC (refd)

B Surinder Singh Kanda v The Government of the Federation of Malaya [1962] 1 MLJ 169; [1962] 1 LNS 14, PC (refd)

Director-General of Inland Revenue v Khoo Ewe Aik Realty Sdn Bhd [1990] 2 MLJ 415; [1990] 1 CLJ Rep 91, SC (refd)

Edwards (Inspector of Taxes) v Bairstow and Another [1955] 3 All ER 48, HL (refd)

Government of Malaysia v Gan Chuan Lian and another action [1992] 1 MLJ 449, HC (refd)
Government of Malaysia v Ng Song Choon [1975] 1 MLJ 131 (refd)
Kenny Heights Development Sdn Bhd v Ketua Pengarah Hasil Dalam Negeri [2015] 4 MLJ 487; [2015] 5 CLJ 923, CA (refd)
Law Pang Ching & Ors v Tawau Municipal Council [2009] 3 MLJ 452; [2010] 2 CLJ 821, CA (refd)
Palm Oil Research And Development Board Malaysia & Anor v Premium Vegetable Oils Sdn Bhd & another appeal [2005] 3 MLJ 97; [2004] 2 CLJ 265, FC (refd)
Rohana bte Ariffin & Anor v Universiti Sains Malaysia [1989] 1 MLJ 487, HC (refd)

Legislation referred to

Evidence Act 1950 s 114(g)
Income Tax Act 1967 ss 13(2), 91, 91(1), (3), 113(2), Schedule 5, paras 34, 39, 41, 42
Promotion of Investments Act 1986 s 7(3), 9, 9(1), 17, 24

Ashrina Ramzan Ali (Hasniza Alias and Kwan Huey Chin with her) (Inland Revenue Board) for the appellant.
Vijay M Krishnan (Chang Ee Leen with him) (Raja, Daryll & Loh) for the respondent.

Asmabi Mohamad J:

INTRODUCTION

[1] This is the Inland Revenue Board of Malaysia's ('the appellant') appeal by way of a case stated pursuant to para 34 of Schedule 5 of the Income Tax Act 1967 ('the ITA') with respect to the deciding order made by the Special Commissioner of Income Tax ('SICT') dated 7 May 2014 in favour of Latex Manufacturing Sdn Bhd ('the respondent').

[2] There were five issues tendered for determination of the SCIT. However during the hearing before the SCIT, the appellant had agreed only to three issues for the determination of the SCIT as follows:

(a) whether the respondent ('the appellant') is time-barred under s 91(1) of the ITA from raising an additional assessment on the appellant ('the respondent') for the year of assessment 2000 (current year basis) via a notice additional assessment (Form JA) dated 24 September 2010;

(b) whether the appellant ('the respondent') has satisfied condition (j) in the pioneer certificate of the appellant ('the respondent') dated 4 May 1993 by exporting its production directly as well as through its holding company and other exporters; and

(c) whether the respondent ('the appellant') has correctly and reasonably imposed a penalty under s 13(2) at the rate of 45% as consequence of disallowing the pioneer status incentive of the appellant ('the respondent') for the year of assessment 2000 (current year basis).

(Note: The parties are described in the issues as they were described before the SCIT).

THE SALIENT FACTS

[3] The facts of the case had been well illustrated at para 7 of the 'Case Stated' which was presented to the court for purposes of this appeal. The facts could be found under the heading, 'Statement of Agreed Facts of the Applicant' (see para 7.1 at pp 6–8) and 'Proved Facts' (see para 7.2 at pp 9–22 of the case stated). The salient facts are summarised as follows.

Facts extracted from the agreed facts:

(a) the respondent is a company dealing with the manufacturing of natural and synthetic rubber gloves;

(b) the respondent was issued with the pioneer certificate dated 4 May 1993 by the Minister of International Trade and Industry ('MITI') under s 7(3) of the Promotion of Investments Act 1986 ('the PIA'), certifying that the appellant is a pioneer company and that the 'Examination Gloves' are promoted product ('pioneer certificate');

(c) pursuant to the pioneer certificate, the pioneer status tax incentive commenced on 1 October 1992. This pioneer status was extended for five years from 1 October 1997–30 September 2002 pursuant to a letter from MITI;

(d) the pioneer certificate contains a condition that 'Syarikat ini hendaklah mengeksport keseluruhan pengeluarannya';

(e) self-assessment for companies was introduced with effect from the year of assessment 2001;

(f) prior to the introduction of the self-assessment in 2001, under the formal assessment system, the taxpayers submit account and records including the audited accounts and Form C to the appellant and the appellant will sieve through them to ensure the return is correct and raise appropriate assessment;

(g) under the self-assessment system, taxpayers are still required to complete and submit return forms by the required dates. No notice of assessment will be sent to the taxpayers but the taxpayers have to compute their own tax and make payment of the full amount at that time. Tax audits are a fundamental feature of the self-assessment since instead of the appellant, the taxpayers themselves compute its own tax;

(h) an audit was conducted by the appellant on the respondent and pursuant to that audit, a letter dated 6 July 2010 was issued by the appellant informing the respondent that it is a condition of the pioneer status incentive that the appellant must directly export its production and that the appellant had failed to comply with this condition;

(i) due to the said failure, the respondent has computed the tax for the respondent for year assessment 2000 without any incentive;

(j) The appellant via a notice of assessment (Form J) for year of assessment 2000 (current year basis) dated 24 September 2010 assessed the respondent to a tax amounting to RM4,562,703.04 and had further imposed penalties under s 113(2) of the ITA at the rate of 45% amounting to RM2,053,216.37;

(k) aggrieved by the said assessment, the respondent lodged Form Q, a 'Notice of Appeal to the SCIT with respect to Year of Assessment 2000' on 20 October 2010; and

(l) Form Q was forwarded by the respondent to the SCIT on 25 February 2011.

[4] With respect to the proved facts, the SCIT has come up with an elaborate proved facts which could be found at pp 9–22 at para 7.2 of the case stated. The salient proved facts are as follows:

(a) the respondent has construed condition (j) of the pioneer certificate to mean that all the products must be exported directly by the respondent (see para 7.2(xxxvii) at p 19 of the case stated);

(b) the appellant's interpretation of condition (j) of the pioneer certificate, however is a very narrow interpretation, deliberately taken to penalise the respondent with tax (see para 10.24(c) at p 50 of the case stated);

(c) the 'pith and substance' of condition (j) of the pioneer certificate on the words 'mengeksport keseluruhan pengeluarannya,' as the words are consonant with the Long Title to the PIA (see para 10.24(a) at p 49 of the case stated);

(d) the respondent had ensured that all products are exported, be it directly or indirectly via its holding company, Latex Partners Bhd ('holding company') (see paras 7.2(xx), 10.20 and 10.21 at pp 14, 48 and 49 of the case stated);

(e) the reason for exporting via its holding company was for risk management purposes (see para 7.2(ii)–7.2(vi) at pp 9–10 of the case stated);

(f) the intention of exporting via its holding company was not to enable the respondent's holding company to make profit. In fact, the respondent's holding company did not make any profit margin from the sales of the respondent's products (see para 7.2(vii)–7.2(viii) at p 10 of the case stated);

(g) if the respondent's products had not been exported, sales tax would need to be charged to the respondent's products sold locally. However, as shown by the respondent's sales tax record card provided by the Customs Department, the amount of sales tax records show that products not exported are only 0.0064% of the respondent's total sales and these are usually for samples provided to exporters. 0.0064% in accounting terms after rounding up is nil (see para 7.2(x)–7.2(xii) at pp 11–12 and 7.2 (xx) at p 14 of the case stated);

(h) the production of the respondent's products are undeniably focused on export (see para 10.20 at p 48 of the case stated); and

(i) as such, the respondent has not contravened condition (j) of its pioneer certificate at all material times (see para 10.25 at p 51 of the case stated).

POINTS RAISED BY THE RESPECTIVE PARTIES

For the appellant

[5] Learned counsel for the appellant, amongst others, raised the following arguments:

(a) the language of the pioneer certificate as stated in condition (j) of the pioneer certificate shows clearly that the respondent shall export all its products 'Syarikat ini hendaklah mengeksport keseluruhan pengeluarannya'. The respondent had failed to comply with this condition;

(b) the respondent had contravened the provision of the ITA and the PIA when the respondent had stated its accounting period to be 21 months when they knew the basis period during the transitional period under the ITA is not more than 12 months. The same is with the PIA;

(c) the appellant was not barred by s 91(1) of the ITA as it is the duty of the

respondent to make correct return and provide correct information to the appellant. The respondent had concealed its act and the appellant discovered this negligent act at the time of the audit;

(d) the appellant is entrusted by Parliament to determine the tax liability of the respondent. It has a duty to ensure that the respondent has succeeded in demonstrating that it is exempted from paying tax by virtue of its pioneer status;

(e) the respondent had acted negligently in reporting the accounting period to the appellant and it had failed to comply with the requirements of the pioneer certificate which requires the respondent to export all its manufacturing products on its own;

(f) the respondent had filed an incorrect return when it provided the accounting period for more than 12 months when the ITA as well as the PIA, state that the accounting period shall be 12 months. By doing so the respondent had breached his duty of care to the appellant;

(g) this is a valid case for penalty. The respondent's witness admitted that the basis for accounting ought to be 12 months and yet the account was prepared based on 21 months; and

(h) the appellant's action was lawful and with authority.

By the respondent

[6] The gist of the issues raised by learned counsel for the respondent, amongst others, could be stated as follows:

(a) at all the material time, the respondent had pioneer status with 100% exemption on income tax;

(b) the respondent had not breached condition (j) of the pioneer certificate. There was also no cancellation of the pioneer certificate, at any material times by the giver, MITI;

(c) the 'pith and substance' of condition (j) fall on the words 'Mengeksport keseluruhan pengeluarannya'. The appellant has looked at the condition very narrowly. However the SCIT did not accept the narrow approach to the incentive given to the respondent through MITI. The SCIT had considered all relevant facts and made very strong remarks, 'That the Respondent's (Appellant herein) interpretation of condition (j) is a *narrow interpretation* deliberately taken to penalise the Appellant (Respondent herein) with tax for having reported and filed a tax return for YA 2000 (PYB) exceeding a 12 month accounting period;') (see p 50 at para (c));

(d) this remark is not made from vaccum but based on precise set of facts recognised and found by the SCIT. In any event, it should be MITI, which should decide if there is compliance with the pioneer certificate or not and not the appellant;

(e) the respondent had ensured that its products are exported either directly or export through its holding company. The reason for exporting via its holding company was for risk management purposes (see para 7.2(ii)–7.2(vi) at pp 9–10 of the case stated). Its purpose was not to enable the holding company to make profits. In any event the holding company did not make any profit margin (see para 7.2(vii)–7.2(viii) at p 10 of the case stated). There were also findings of fact that the export was done through its holding company to mitigate certain export requirement especially 510k;

(f) if there was a purported breach of condition (j) of the pioneer certificate, there was only non-compliance with the mandatory statutory provision of s 9 of the PIA by MITI rendering the appellant's raising the additional assessment illegal and as such the assessment void;

(g) as to whether the respondent could export through the holding company and/or the products must be exported exclusively by the respondent, is for MITI to explain to the SCIT. In this case no witness had been called by the appellant to prove this. Hence the SCIT had invoked the provision of s 114(g) of the Evidence Act 1950 against the appellant;

(h) the appellant, despite acknowledging that there is a need for s 9 of the PIA to be complied with at the time it made recommendation to MITI to cancel the respondent's pioneer certificate, had disregarded the fact that no action was taken by MITI when the appellant raised additional assessment;

(i) even if MITI is vested with the power to cancel or revoke the respondent's pioneer certificate, MITI has a duty to ensure that it accords the respondent with the right to be heard before making any adverse decision against the respondent affecting its pioneer status. It has a legitimate expectation that the pioneer certificate and the tax incentive be valid for the entire duration granted to it;

(j) the additional assessment had been raised beyond the period provided by s 91(1) of the ITA. Neither could the appellant demonstrate the existence of fraud, negligence or willful default on the part of the respondent to warrant invocation of that section. In any event the burden of proof rests on the appellant to show existence of fraud, negligence or willful default which the appellant failed to show. There was no finding of any of these elements by SCIT;

(k) for the case at hand whether there was fraud, negligence or willful default, the case hinged very heavily on the facts and very little involvement of the law. In order to succeed the appellant has to urge the court to rehear and makes its own findings of fact. This could not be done as the facts as found by the SCIT are unassailable. Therefore, there is no ground for this court to interfere with the findings made by the SCIT;

(l) the penalty ought not to have been imposed because there has been no non-disclosure of information as the audited account has been submitted to appellant and the information pertaining to sales via its holding company had been disclosed; and

(m) although the appellant had stated that the basis period for year of assessment 2000 had not been computed properly, the appellant has agreed that whether the respondent is exempted under the pioneer certificate or under waiver year for year of assessment 2000, the respondent is still exempted. Section 91 can only be invoked to 'make good any loss of tax'. Such situation did not occur under current factual matrix.

DUTY OF THE COURT IN A CASE STATED

[7] Both learned counsel had submitted at length on the duty of the court in dealing with an appeal by way of a case stated. Under the ITA, parties who appeared before the SCIT may appeal to the High Court against the deciding order of the SCIT on a question of law (see paras 34, 39, 41 and 42 of Schedule 5 to the ITA and *Director-General of Inland Revenue v Khoo Ewe Aik Realty Sdn Bhd* [1990] 2 MLJ 415 at p 419; [1990] 1 CLJ Rep 91 at p 97). According to the cases submitted by both learned counsels, generally, the appellate courts are particularly slow in interfering with the findings of tribunals specialising in specific fields.

[8] In tax cases, the courts in Malaysia had repeatedly referred to the case of *Edwards (Inspector of Taxes) v Bairstow and Another* [1955] 3 All ER 48 where the court has held that it is the duty of the court hearing a case stated to examine the determination of the SCIT having regard to its knowledge of the relevant law, however this duty is very limited. The High Court cannot reverse the commissioners on their findings of fact except in the following circumstances:

(a) if the case contains anything ex facie which is bad in law;

(b) which bears upon the determination, it is, obviously, erroneous in point of law;

(c) if the facts found are such that no person acting judicially and properly instructed as to the relevant law could come to the determination under appeal;

(d) if there has been error in point of law;

(e) if the case is one where there is no evidence to support the determination;

(f) if the case is one where the evidence is inconsistent with and contradictory of the determination; or

(g) the true and only reasonable conclusion contradicts the determination.

[9] The court would also observe the caution made by Court of Appeal in the case of *Kenny Heights Development Sdn Bhd v Ketua Pengarah Hasil Dalam Negeri* [2015] 4 MLJ 487; [2015] 5 CLJ 923 where the Court of Appeal vide the judgment of His Lordship Abdul Wahab Patail (JCA as His Lordship then was) had stated as follows:

> [24] We make the general observation that courts, *acting in accordance with the law, are at all times bound by the legislation placing jurisdiction and authority in specialised bodies such as SCIT. The legislation specified that the deciding order of the SCIT is final and allowed appeals to the court on question of law and not on any grievance. It underlines, within the SCIT's jurisdiction, its authority and prevents the courts being buried under avalanche of tax appeals by parties unhappy with the determination of the KPHDN and the SCIT.*
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> *[25] Courts must also bear in mind the SCIT's specialisation. Dealing with terms and practices of the business and the business community enable them to have special insight, understanding and appreciation of the evidence and facts, to make the findings drawn from those evidence and facts. While a finding of fact often touches upon the law, the determining factor in the finding is their special insight and appreciation of the facts. Hence, unless it is demonstrated that SCIT had erred on a question of law, resulting in a manifest error in the deciding order, the court cannot intervene, as it would amount to interference contrary to the intent of legislation setting up and empowering the SCIT (see Lower Perak Co-Operative Housing Society Bhd v Ketua Pengarah Hasil Dalam Negeri* [1994] 2 MLJ 713; [1994] 3 CLJ 541 (SC)).

[10] Mindful of my functions in a case stated as discussed above, upon perusal of all the relevant documents filed herein, having considered the oral and documentary evidence adduced before the SCIT, the findings of facts made by the SCIT, the decision of the SCIT and upon reading the written submissions and hearing the oral submissions of the respective parties, my decisions on the case stated are as follows.

A DISCUSSION OF THE ISSUES AND DECISIONS OF THE COURT

Issue 1 — Whether the appellant is vested with the authority to disregard the pioneer certificate and pioneer status of the respondent for any year of assessment, in which a condition in the pioneer certificate is allegedly not complied with

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[11] It is not disputed that the respondent had been granted pioneer status and pioneer certificate for the production of examination gloves. A 100% exemption had been granted to the respondent by the government through MITI. Under condition (j) of the pioneer certificate, the respondent shall C export all its products. Pursuant to an audit conducted by the appellant, it was discovered that the respondent did not export all its products but the export was also undertaken by its holding company. In view of this, the appellant contended that the respondent had breached condition (j) of the pioneer certificate. Therefore it is not entitled to the tax exemption granted to it by D MITI.

[12] The appellant then informed MITI vide its letter dated 17 July 2009 of the alleged non-compliance and suggested to MITI to cancel the pioneer E certificate granted to the respondent pursuant to s 9 of the PIA (see p 175 of exh F). The letter sent to MITI was not copied to the respondent.

[13] This fact was communicated to the respondent vide the appellant's letter dated 31 March 2010 intimating to the respondent that due to the F alleged non-compliance of the condition in the pioneer certificate, the respondent was not entitled to tax exemption for years of assessment for 1998–2000 (see pp 158–159 of exh D).

G **[14]** The respondent sought audience with the appellant to explain that it had in fact complied with the condition of the pioneer certificate as it had also exported its product through its holding company. Via a letter dated 5 May 2010, the respondent explained the reason it had to export through its holding company (see exh D at pp 223–224).

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[15] The appellant responded to the 5 May 2010 letter by intimating to the respondent, under the pioneer certificate, the respondent ought to export directly which they had failed to do. The appellant stated that it relied on MITI's decision vide its letter dated 17 July 2009 (see exh D at pp 158 and I 161).

[16] Pertaining to the above issue, the SCIT had made its findings of fact as follows:

(a) the appellant had failed to seek clarification with the respondent relating to the reasons the sale was made through the holding company before writing to MITI. The letter sent to MITI was couched in a cursory manner. It had communicated to MITI that the respondent had not exported all of its products on its own and sought for the respondent's pioneer certificate to be cancelled. There was no supporting documents sent. The person who wrote the letter was not acquainted with the facts of the case as he was not in charge of the audit of the respondent's account. Even the fact pertaining to the indirect export by the holding company was not communicated to MITI (see para 7.2(xxvi) and (xxvii) at pp 16–17 of the case stated). Neither was clarification sought from MITI with regards to whether the export must be done by the respondent exclusively or whether it could also be done by other persons so long as the products leave the country;

(b) it did not occur to MITI to liaise with the respondent to seek for clarification on the matter before the letter dated 17 July 2009 was written. No show cause letter was issued to the respondent by MITI to afford the opportunity to the respondent to state its version against that of the appellant and as to why the pioneer certificate ought not to be cancelled and/or tax exemption revoked under s 9(1) of the PIA;

(c) MITI had not contacted the respondent or issued a notice in writing as required under s 9(1) of the PIA to require the respondent to show cause why the pioneer certificate should not be cancelled (see para 7.2(xxvii) at p 17 of the case stated);

(d) the respondent had no information about the communication between the appellant and MITI and was left in the dark about the whole affairs until much later, although it was the aggrieved party. Even letters between the appellant and MITI were not copied to the respondent. The SCIT found that there was a clear breach of natural justice/procedural fairness in the case;

(e) the appellant did not convey to MITI a relevant information pertaining to the export made through the respondent's holding company. Hence the respondent was not given all the opportunities to present its version of the case. Neither was MITI fully appraised of the facts surrounding the respondent's case;

(f) further the appellant was not the proper authority to decide if the export through the respondent's holding company satisfies the requirement of condition (j) of the pioneer certificate. This fell within the purview of MITI. In view of the foregoing, the SCIT was of the view that the appellant had exceeded its authority; and

(g) the appellant had no legal basis to raise additional assessment against the respondent. Section 24 of the PIA provides that the appellant may only

raise additional tax if there is a direction under s 17 of the PIA or if the pioneer certificate has been cancelled. As none of these situation had occurred, the appellant did not have the authority to raise additional assessment. Section 24 being a specific law overrides the provision of s 91 of the ITA.

[17] The SCIT observed that MITI's position pertaining to the appellant's pioneer certificate was merely based on the appellant's representation with certain relevant information being withheld from the respondent. All the above facts were as found by the SCIT.

[18] Based on the above, I am satisfied that there was nothing wrong with the deciding order made by the SCIT to merit curial intervention. The SCIT was justified in coming to that decision as the mandatory procedure under s 24 of the PIA had not been complied with and there was no cancellation of the respondent's pioneer certificate by MITI. The respondent can therefore continue to enjoy its pioneer status. Therefore the appellant was wrong in issuing additional assessment herein.

Issue 2 — Non-compliance of the mandatory requirement under s 9 of the PIA

[19] The respondent was alleged to have breached condition (j) of the pioneer certificate. In view of this, the appellant was of the view that the respondent was not entitled to the tax exemption granted to it by MITI. During the proceedings before the SCIT, it was observed by the SCIT that the decision by the appellant to impose the additional assessment on the ground that the respondent no longer enjoys the tax holiday was done in a very lackadaisical manner by the appellant as well as MITI.

[20] Once a holder of a pioneer certificate has been found to be in breach of the conditions in the pioneer certificate, MITI, as the agency involved in granting the tax exemption, has a legal duty under s 9 of the PIA to issue a show cause to the holder of the pioneer certificate as to why the pioneer certificate ought not to be cancelled and/or the tax incentive revoked. This is a condition precedent before any action is taken to impose additional assessment.

[21] A perusal of s 9 of the PIA clearly shows that the section imposes a mandatory requirement for a notice in writing to be issued to the holder of the pioneer certificate if there were claims that the conditions stated in the pioneer certificate had not been complied with, before any action is taken to cancel the pioneer certificate.

[22] There are ample authorities on point (some had been highlighted by learned counsel for the respondent) to illustrate that when the word 'shall' is used in a particular provision of the law, it is a mandatory requirement which has to be adhered to.

[23] Therefore the SCIT had correctly ruled that the word 'shall' in s 9 of the PIA indicates that it is a mandatory provision. Any non-compliance with the conditions of the pioneer certificate would result in the pioneer company be deprived of the benefits and incentives accorded to it. As this is something very serious which may even result in the revocation of the pioneer status and imposition of additional assessment as was done in this case, the authority concerned must see that the company which would be adversely affected by such a decision to be given the opportunity to make its representation as to why its pioneer certificate ought not to be cancelled and/or its incentives revoked.

[24] There was clear evidence before the SCIT that the respondent had invested heavily in order to improve its infrastructure and facilities for the purpose of its business efficacy. This was done as the respondent had a legitimate expectation that it is entitled to enjoy the tax relieve for its business for the entire term granted to it. If this benefits are to be taken away, the respondent must be given the right to be heard.

[25] Section 9(1) of the PIA is couched in a mandatory nature, unless there is a notice to show cause issued under s 9 of the PIA for the respondent to show cause as to why its pioneer certificate ought not to be cancelled and its tax incentives ought not to be revoked, the respondent is entitled to continue to enjoy the tax incentives under the pioneer certificate. As this is a crucial protection given by the law to the respondent, justice would demand that there be strict compliance with the said procedure before any adverse action is taken against the respondent. As the respondent's pioneer certificate had not been cancelled under s 9(1) of the PIA, the respondent had rightfully claimed for the tax incentive as was done in this case.

[26] The appellant had denied the respondent to what the respondent is entitled to without complying with the procedure set by PIA. The action taken by the appellant is null and void as there existed procedural violations of the mandatory provision of the law which could not be cured.

[27] The appellant was aware that there is a need for MITI to cancel the pioneer certificate pursuant to s 9 of the PIA and that was why it has suggested to MITI to cancel the respondent's pioneer status in its letter dated 28 June 2009. However, MITI did not take any action towards that direction.

[28] As there was clear violation of the mandatory requirement of s 9 of the

PIA, the additional assessment raised by the appellant is null and void.

[29] In view of the aforesaid, the SCIT had rightly held that MITI's letter dated 17 July 2009 is fatally flawed and of no effect.

Issue 3 — Breach of natural justice

[30] I have touched generally on the procedure stipulated under s 9(1) of the PIA in my discussion of Issue 2 herein. From the facts found by the SCIT, there is no doubt that the respondent was not accorded with the opportunity to present its case to MITI on an issue which is so crucial affecting the respondent's right to the tax incentives pursuant to the pioneer certificate granted to it. It is also not disputed that the decision by MITI was unilaterally done without strict adherence to the well set procedure under s 9 of the PIA. The SCIT found that the correspondence only involved MITI and the appellant. The respondent was never in the picture and had come to know about the correspondences until the final hearing date of the appeal. In short the respondent was not afforded the right to be heard by MITI before any adverse decision is taken affecting its rights to the pioneer certificate.

[31] There is plethora of cases on what is meant by right to be heard, some of which had been highlighted by learned counsel for the respondent in learned counsel's written submission.

[32] At this juncture, I would like to refer to the case of *Attorney-General v Thomas D'arcy Ryan* [1980] AC 718 where the Lord Diplock had stated as follows:

> But the requirement that a person who is charged with having done something which, if proved to the satisfaction of a statutory tribunal, has consequences that will, or may, affect him adversely, should be given a fair opportunity of hearing what is alleged against him and of presenting his own case, is so fundamental to any civilized legal system that it is to be presumed that Parliament intended that a failure to observe it should render null and void any decision reached in breach of this requirement.

[33] In the oft quoted case of *B Surinder Singh Kanda v The Government of the Federation of Malaya* [1962] 1 MLJ 169; [1962] 1 LNS 14 the Privy Council held:

> If the right to be heard which is worth anything, it must carry with it a right in the accused man to know the case which is made against him. He must know what evidence has been given and what statements have been made affecting him; and then he must be given a fair opportunity to correct or contradict them.

[34] In *Rohana bte Ariffin & Anor v Universiti Sains Malaysia* [1989] 1 MLJ 487 at p 493 the High Court held:

> It is well established principle of administrative law that anything that restrict or appear to restrict the defendant's liability to present his case may be held to be a breach of procedural fairness and thereby susceptible to judicial review.

[35] From the plethora of cases, some of which had been highlighted above, it would appear that the right to be heard within the context of natural justice would mean that any person to be affected by the decision of the statutory tribunal has a right to be heard, to know the case or evidence that might assist his case and be given every opportunity to state his version for consideration. If these facts are concealed from the person who would be adversely affected by the said decision, making it impossible and/or difficult for that person to defend himself, then there is clear breach of the basic rule of natural justice/procedural fairness.

[36] In the case at hand, there is no doubt that the respondent had been prejudiced by the conduct of the appellant as well as MITI. The respondent has a legitimate expectation that it is entitled to enjoy the tax relieve for its business for the entire term granted to it. If these benefits are to be taken away, the respondent must be given the right to be heard. In *Law Pang Ching & Ors v Tawau Municipal Council* [2009] 3 MLJ 452 at p 471; [2010] 2 CLJ 821 at p 838 the Court of Appeal had discussed what is legitimate expectation as follows:

> by depriving him some benefit or advantage which either (i) he had in the past been permitted by the decision-maker to enjoy and which he can legitimately expect to be permitted to continue to do until there has been communicated to him some rational grounds for withdrawing it on which he has been given an opportunity to comment; or (ii) he has received assurance from the decision-maker will not be withdrawn without giving him first an opportunity of advancing reasons for contending that they should not be withdrawn.

[37] In the case before me, the respondent was deprived of its rights to the tax incentives under its pioneer certificate without first being given the right to be heard. Obviously for a company like the respondent, it has built its business and investment on its pioneer status. By denying the respondent its tax incentive without being afforded the right to be heard had resulted in the respondent suffering from grave economic loss. I agree with the SCIT that such act cannot stand as the very basic principle of natural justice had been infringed by the appellant and MITI.

Issue 4 — No breach of pioneer certificate

[38] As I had highlighted earlier on herein, there were no steps taken by

MITI to cancel the pioneer certificate and/or revoked the tax incentives under the mechanism provided by PIA. Despite the fact that there is a set of procedure to be complied with by MITI under s 9 of the PIA, it had not resorted to the procedure sanctioned by PIA. Instead, MITI had resorted to a procedure which is flawed as found by the SCIT.

[39] The appellant's reason for raising the additional assessment is because the appellant is of the view that the respondent has breached condition (j) of the pioneer certificate because it did not exclusively export the products but part of the export was done by its holding company.

[40] The SCIT had the benefit of hearing the witnesses before it and had in clear words stated the facts as found by it, the gist of which has been stated by me under heading 'Proved Facts'. The same is being repeated herein.

[41] Upon scrutinising the facts as found by the SCIT and upon reminding myself of the limited role the High Court plays in interfering with the deciding order of the SCIT unless under circumstances highlighted by me under heading 'Duty of the Court in a Case Stated', I could not find any reason to interfere with the said decision and/or facts as found by the SCIT as the appellant had not shown any of the circumstances which merits intervention.

Issue 5 — The appellant is not the rightful authority

[42] The SCIT found that the appellant was not the proper or rightful authority to decide on whether indirect export amounts to non-compliance of the pioneer certificate. The power lies with MITI pursuant to s 9 of the PIA as discussed herein. The SCIT had also found that the appellant had withheld certain crucial information to MITI to enable MITI to be fully appraised of all the relevant facts surrounding the respondent's case before responding to the inquiries raised by the appellant in its letter dated 28 June 2009.

[43] From the letter written to MITI, it could be gauged that the appellant had written the letter in such a manner so as to elicit and prompt a prejudicial response from MITI as follows:

(a) by stating that there has been breach of export condition for years 1998–2000 intimating that for some years the respondent had exported less of its products;

(b) offering its audit conclusion that the respondent had breached the condition of the pioneer certificate;

(c) the appellant had interfered with powers vested in MITI by PIA by making recommendations that the respondent's pioneer certificate be cancelled and incentives revoked without even giving the right to the respondent to be heard;

(d) by failing to fully appraised MITI of the facts surrounding the respondent's case;

(e) keeping the respondent in the dark about the communication between the appellant and MITI until the hearing before the SCIT, despite the fact that the respondent would be affected by any decision by MITI relating to the status of the pioneer certificate; and

(f) failure in not seeking for any clarification of the respondent who is the party affected by any adverse decision made by the appellant or MITI.

[44] From the above, it is obvious that the appellant had exceeded the authority granted to it by ITA and had encroached into the jurisdiction of MITI (see *Palm Oil Research And Development Board Malaysia & Anor v Premium Vegetable Oils Sdn Bhd & another appeal* [2005] 3 MLJ 97 at p 122; [2004] 2 CLJ 265 at p 291).

[45] The appellant had acted ultra vires in disallowing the respondent's claim for the tax incentives under the pioneer certificate. In view of the above and for the reasons I had discussed in the earlier paragraphs, the SCIT was correct to hold that MITI's letter dated 17 July 2009 is fatally and legally flawed and of no consequences due to non-compliance of the provision of s 9 of the PIA, as found by the SCIT.

Issue 6 — Time-bar

[46] The next issue to be considered is whether the appellant could invoke s 91 of the ITA to justify its imposition of additional assessment on the respondent.

[47] It would appear that the additional assessment raised against the respondent was for year of assessment 2000 (current year basis). This has been made beyond six years, the time within which a claim can be brought as stated in s 91(3) of the ITA, unless if the appellant can prove that fraud or willful default has been committed by or on behalf of any person or there is an element of negligence involved (see s 91(3) of the ITA; *Government of Malaysia v Gan Chuan Lian and another action* [1992] 1 MLJ 449 at p 453; *Government of Malaysia v Ng Song Choon* [1975] 1 MLJ 131).

[48] The appellant contended that the respondent was negligent in preparing its accounts for year of assessment 2000 (preceding year basis) by having more than 12 months in the said basis period. As a result of this the respondent alleged that this has caused a loss of revenue to the Government of Malaysia. The basis of the appellant was because the year of assessment 2000 (preceding year basis) was a waiver year.

[49] The effect of a waiver year is that all income earned in that year of assessment is exempted from tax. A waiver year was declared for Malaysia for the year 1999 which is the year of assessment 2000. The appellant contended that the respondent has caused a loss of revenue to the Government of Malaysia in that waiver year by having a basis period of more than 12 months for that year of assessment ie a basis period from 1 April 1998–31 December 1999. The appellant contended that where the basis period is more than 12 months, the income from the additional months will also be waived from tax and thus cause a loss of revenue to the government.

[50] What the appellant failed to appreciate is that the respondent has pioneer status from 1 October 1992–30 September 2002. The effect of having pioneer status is similar to that of a waiver year ie that all income generated by the company from its pioneer business during the period covered by the pioneer status is exempted from tax. The waiver year declared by the government, which is the year 1999, is part of the respondent's pioneer status period. This was a fact found by the SCIT (see para 7.2(xxx) at p 17 of the case stated). The appellant's witness, RW1 agreed with this during cross-examination. Therefore, regardless of whether there was a waiver year or not, the respondent's income is still exempted from tax during that period.

[51] Although the respondent's basis period was for the waiver year was more than 12 months, the respondent has not caused any loss of revenue to the Government of Malaysia. Therefore the respondent's income between 1 April 1998–31 December 1999 is exempted from tax, with or without the waiver year (see para 7.2(xxxi) at p 17 of the case stated).

[52] Based on the above, the appellant's contention that the respondent was negligent cannot be supported. This point relied by the appellant has no merits and rejected by this court. The appellant could not rely on the provision of s 91(1) of the ITA to justify its claim for additional assessment.

Issue 7 — Whether the appellant can impose the penalty of 45%

[53] Based on the reasons advanced above, the appellant lacked the legal grounds and authority to raise the additional assessment in the first place. Therefore, the appellant has no grounds to impose the penalty.

CONCLUSION

[54] Bearing in mind of the above said principles, upon perusal of the cause papers, the written submissions of all the relevant parties herein and upon hearing learned counsels for the appellant and the respondent respectively and upon giving this matter a serious consideration, I am of the view that the decision of the SCIT did not suffer from any of the infirmities as highlighted in the case of *Edwards (Inspector of Taxes) v Bairstow and Another* [1955] 3 All ER 48 as well as other cases submitted to this court to merit curial intervention. For the above mentioned reasons, I dismiss the appeal by the appellant with costs. After hearing a brief submission on the issue of costs, I have allowed costs of RM7,000 to be awarded to the respondent.

[55] For the purpose of these grounds of judgment, I have taken into consideration all the points that were submitted by both learned counsel. On the whole, I agreed with the points raised by learned counsel for the respondent and adopt those points herein.

[56] I would like to extend my sincere gratitude to all learned counsel for their professionalism, diligence and abled submissions in putting across all relevant points for the court's determination.

Appellant's appeal dismissed with costs of RM7,000.

Reported by Dzulqarnain Ab Fatar